

ANNUAL BUDGET 2017/18

SETSOTO LOCAL MUNICIPALITY



2017/18 TO 2019/20
MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Abbreviations and Acronyms

AMR	Automated Meter Reading
ASGISA	Accelerated and Shared Growth Initiative
BPC	Budget Planning Committee
CBD	Central Business District
CFO	Chief Financial Officer
MM	Municipal Manager
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
EE	Employment Equity
EEDSM	Energy Efficiency Demand Side Management
EM	Executive Mayor
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GDP	Gross domestic product
GDS	Gauteng Growth and Development Strategy
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
HR	Human Resources
HSRC	Human Science Research Council
IDP	Integrated Development Strategy
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MMC	Member of Mayoral Committee
MPRA	Municipal Properties Rates Act

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MSA	Municipal Systems Act
mSCOA	Municipal Standard Chart of Accounts
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
OP	Operational Plan
PBO	Public Benefit Organisations
PHC	Provincial Health Care
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
PTIS	Public Transport Infrastructure System
RG	Restructuring Grant
RSC	Regional Services Council
SALGA	South African Local Government Association
SAPS	South African Police Service
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

PART 1: Annual Budget

1.1 Mayor's Report

The Executive Mayors report will be handed out during the Budget meeting.

1.2 Executive Summary

The application of sound financial management principles for the compilation of the Municipality financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. Key areas where savings were realized were on telephone and internet usage, printing, workshops, accommodation, and catering. Also referring to the Cost containment measures adopted by Council.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 85 and 86 were used to guide the compilation of the 2017/18 MTREF. The mSCOA version 6.1 was also introduced with the circulars and thus the budget tables was compiled and reported in terms of the said circulars.

The main challenges experienced during the compilation of the 2017/18 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;

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- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies and the implementation of the newly approved staff structure.
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2017/18 MTREF process; and

The following budget principles and guidelines directly informed the compilation of the 2017/18 MTREF:

- The 2016/17 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2017/18 annual budget;
- Intermediate service level standards were used to inform the measurable objectives.
- Tariff and property rate increases should be affordable, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of providing water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

1.3 Recommendation

It is recommended that council at its Meeting held on 31st May 2017, consider the approval of the final 2017/18 budget with the following resolutions:

- 1.1. The annual budget of the municipality for the financial year 2017/18 and the multi-year and single-year capital appropriations as set out as follows:
 - 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out below:
2. The Council of Setsoto Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2017:
 - 2.1. the tariffs for property rates – as set out in attached tariff list,
 - 2.2. the tariffs for electricity– as set out in attached tariff list,
 - 2.3. the tariffs for the supply of water – as set out in attached tariff list
 - 2.4. the tariffs for sanitation services – as set out in attached tariff list
 - 2.5. the tariffs for solid waste services – as set out in attached tariff list

3. The Council of Setsoto Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2017 the tariffs for other services, as set out in paragraph 2 above as well as the tariff list referred to paragraph 2.4 below, respectively.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2017/18 Medium-term Revenue and Expenditure Framework:

1.4 Summary of Operating Revenue and Expenditure

Total operating revenue has grown by **2.4 %** or **R9.621 million** for the 2017/18 financial year when compared to the 2016/17 Adjustment Budget. For the two outer years, operational revenue will decrease by **5.9%** and then increase by **5.8%** respectively.

Total operating expenditure for the 2017/18 financial year has grown by **4.3%** or **R17.009 million** and the total amount appropriated is **R412.271 million** including depreciation of R12.490 million and which translates into a budgeted surplus of **R238 thousands**.

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FS191 Setsoto - Table A1 Budget Summary					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousands					
<u>Financial Performance</u>					
Property rates	42,250	33,111	43,263	45,815	48,473
Service charges	193,512	160,091	173,658	183,904	194,570
Investment revenue	2,200	1,755	1,860	1,970	2,084
Transfers recognised - operational	162,308	162,308	161,245	170,758	180,662
Other own revenue	35,260	45,624	32,483	34,400	36,395
Total Revenue (excluding capital transfers and contributions)	435,530	402,888	412,509	436,847	462,184
Employee costs	174,767	173,256	182,908	193,699	204,934
Remuneration of councillors	7,927	8,354	11,062	11,714	12,394
Depreciation & asset impairment	33,262	12,288	12,490	13,227	13,994
Finance charges	13,177	11,499	8,511	9,014	9,536
Materials and bulk purchases	74,000	73,179	67,284	71,254	75,386
Transfers and grants	1,064	399	894	1,000	1,058
Other expenditure	131,172	116,288	129,123	136,741	144,672
Total Expenditure	435,369	395,262	412,271	436,649	461,974
Surplus/(Deficit)	161	7,626	238	199	210

1.5 Operating Revenue Framework

For Setsotho Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro-economic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 74 per cent (74%) annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Council.

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1.6 Summary of Operating Revenue by source

Table 2 – Summary of Operating Revenue by source

Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousands					
<u>Financial Performance</u>					
Property rates	42,250	33,111	43,263	45,815	48,473
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Other own revenue	35,260	45,624	32,483	34,400	36,395
Total Revenue (excluding capital transfers and contributions)	435,530	402,888	412,509	436,847	462,184

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise **53 %** of the total revenue mix. In the 2017/18 financial year, revenue from rates and services charges totalled **R216.921 million**. A notable trend is the increase in the total percentage revenue generated from rates and services charges which increases from **48 %** in 2016/17 to **53 %** in 2017/18. This incline can mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to the percentage increased allowed by NERSA for electricity sales. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

1.7 Summary of operating expenditure by standard classification item

Table 8 Summary of operating expenditure by standard classification item

Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousands					
<u>Financial Performance</u>					
Employee costs	174,767	173,256	182,908	193,699	204,934
Remuneration of councillors	7,927	8,354	11,062	11,714	12,394
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Finance charges	13,177	11,499	8,511	9,014	9,536
Materials and bulk purchases	74,000	73,179	67,284	71,254	75,386
Transfers and grants	1,064	399	894	1,000	1,058
Other expenditure	131,172	116,288	129,123	136,741	144,672
Total Expenditure	435,369	395,262	412,271	436,649	461,974

The budgeted allocation for employee related costs for the 2017/18 financial year totals R182.908 million, which equals 44 % of the total funded operating expenditure and that excludes Council remuneration.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality budget.

Provision of debt impairment for the 2017/18 financial year amounts to **R58 million**. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

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Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy as well as the GRAP standards. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years and are not expensed through the income statement as it relates mainly to the significant increase in the revaluation value of infrastructure assets. These expenses are directly accountant against the appropriation account.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital).

Bulk purchases are directly informed by the purchase of electricity from Eskom. An increase of 8 % has been approved by NRESA.

1.7.1 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality Indigent Policy. The target is to register 7 000 or more indigent households during the 2017/18 financial year, a process reviewed annually.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

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1.8 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure for the 2017/18 Medium Term Revenue & Expenditure Framework:

FS191 Setsoto - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding			
Vote Description	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<u>Capital expenditure - Vote</u>			
<u>Single-year expenditure to be appropriated</u>			
Vote 5 - Development Planning and Social Security	1,700	37,407	—
Vote 6 - Engineering Services	103,297	—	—
Capital single-year expenditure sub-total	104,997	37,407	—
Total Capital Expenditure - Vote	104,997	37,407	—
<u>Capital Expenditure - Functional</u>			
<i>Community and public safety</i>	1,700	10,912	—
Community and social services		6,000	—
Sport and recreation	1,700	4,912	—
<i>Economic and environmental services</i>	31,581	—	—
Road transport	31,581		
<i>Trading services</i>	71,716	36,026	—
Energy sources	6,000		
Water management	42,716		
Waste water management	23,000	3,531	—
Waste management		32,496	
<i>Other</i>		1,490	
Total Capital Expenditure - Functional	104,997	48,428	—
<u>Funded by:</u>			
National Government	104,997	48,428	
Transfers recognised - capital	104,997	48,428	—
Public contributions & donations			
Borrowing			
Internally generated funds			
Total Capital Funding	104,997	48,428	—

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PROJECT DESCRIPTION	Planned MIG Expenditure for 2017/2018	Planned MIG Expenditure for 2018/2019
PMU	2,117,700.00	2,233,850.00
Marquard/Moemaneng: Construction of 3.0 km Paved Road and Storm Water Drainage	11,203,132.63	1,436,587.90
Clocolan/Hlohlolwane: Construction of 3.0 km Paved Road and Storm Water Drainage	3,645,314.98	18,457,239.02
Clocolan/Hlohlolwane: Development of New Solid Waste Disposal Sites	6,849,999.99	1,490,078.19
Senekal/Matwabeng: Construction of new indoor sports and recreational facility (MIS:22	2,681,864.63	-
Moemaneng/Marquard: New water reticulation network for 1110 erven (MIS:242906)	6,501,000.00	934,114.60
Meqheleng: Converion of 969 VIP to waterborne toilets	7,151,001.77	4,707,050.23
Upgrading of the WWTW in Clocolan/Hlohlolwane	-	2,221,252.00
Moemaneng: Recticulation of 1110 sites with sewer	7,846,986.00	6,761,182.70
Ficksburg/ Meqheleng: Development of a Cemetry	-	6,000,000.00
Meqheleng/ Ficksburg: Installation of stadium plastic seats	-	3,028,410.00
Hlohlolwane: Converion of 400 VIP to waterborne toilets	-	3,392,235.36
TOTAL	47,997,000.00	50,662,000.00

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Table 9 – Summary of Capital Expenditure funded from Integrated National Electrification Grant

PROJECT DESCRIPTION	Planned INEG Expenditure for 2017/2018
Ficksburg replace 1.2km Mv cable from substasion SS3D	1,800,000.00
Clocolan: Electrification of Erven 205 (Skelotonpark)	3,200,000.00
Clocolan: Electrification of Erven 60 (Tienie van Rooyen)	1,000,000.00
TOTAL	6,000,000.00

In addition to the above there is an amount of R51.0 million that will be received from the Department of Water Affairs for the Regional Bulk Infrastructure Grant (RBIG) it should be noted that this grant it was previously a Schedule 6B and it now change to the Schedule 5B meaning that it will form part of the direct grants which are deposited directly into the municipal accounts. The grant will be utilised for the following two projects:

- R20 million towards Water Treatment Works
- R31 million towards Sewer network.

There is also a R31 000 000 that the municipality is also projecting to finance the acquisition of service delivery fleet that will be purchased though the finance lease.

1.9 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting
Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality website.
2. Internship programme
The Municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. Since the introduction of the Internship programme the Municipality has successfully employed and trained 7 interns through this programme and a majority of them were appointed either in the Municipality or other Institutions such as KPMG, Ernest & Young, SARS, Auditor General, and National Treasury.
3. Budget and Treasury Office
The Budget and Treasury Office has been established in accordance with the MFMA.
4. Audit Committee
An Audit Committee has been established and is fully functional.
5. Service Delivery and Implementation Plan
The detail SDBIP document is at a draft stage and will be finalised after approval of the 2017/18 MTREF in May 2016 directly aligned and informed by the 2017/18 MTREF.
6. Annual Report
Annual report is compiled in terms of the MFMA and National Treasury requirements.
7. MFMA Training
The MFMA training module in electronic format is presented at the Municipality internal centre and training is ongoing.
8. Policies
An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

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1.10 Funding credibility on cash flow

The following table illustrate that based on the collection rate of service charges the budget are cash funded.

Table 10 – Summary of Operating Revenue and Expenditure cash flow

FS191 Setsoto - Table A7 Budgeted Cash Flows					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand					
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts					
Property rates	33,188	17,798	32,014	33,903	35,870
Service charges	147,733	132,157	128,507	136,089	143,982
Other revenue	4,551	4,405	3,790	4,194	4,183
Government - operating	164,563	179,563	161,245	170,758	180,662
Government - capital	79,552	81,807	104,997	75,662	69,426
Interest	15,341	3,613	20,641	21,859	23,126
Dividends	40	40	40	42	45
Payments					
Suppliers and employees	(353,175)	(336,238)	(348,607)	(356,971)	(375,385)
Finance charges	(1,745)	(2,057)	(8,511)	(9,014)	(9,536)
Transfers and Grants	(2,763)	(7,446)	(894)	(1,000)	(1,058)
NET CASH FROM/(USED) OPERATING ACTIVITIES	87,286	73,642	93,222	75,523	71,315
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts					
Decrease (increase) in non-current investments			(1,265)	(1,328)	(1,395)
Payments					
Capital assets	(89,052)	(88,982)	(104,997)	(75,662)	(69,426)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(89,052)	(88,982)	(106,262)	(76,990)	(70,821)
CASH FLOWS FROM FINANCING ACTIVITIES					
Receipts					
Borrowing long term/refinancing			31,000	—	—
Increase (decrease) in consumer deposits			5	5	6
Payments					
Repayment of borrowing	(2,871)	(2,871)	(500)	(530)	(562)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(2,871)	(2,871)	30,505	(525)	(556)
NET INCREASE/ (DECREASE) IN CASH HELD	(4,638)	(18,212)	17,465	(1,992)	(62)
Cash/cash equivalents at the year begin:	3,702	3,702	(14,510)	2,955	963
Cash/cash equivalents at the year end:	(936)	(14,510)	2,955	963	901

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FS191 Setsoto - Supporting Table SA30 Budgeted monthly cash flow																
MONTHLY CASH FLOWS		Budget Year 2017/18												Medium Term Revenue and Expenditure Framework		
R thousand	July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20	
Cash Receipts By Source													1			
Property rates	2,667,872	2,668	2,668	2,668	2,668	2,668	2,668	2,668	2,668	2,668	2,668	2,668	32,014	33,903	35,870	
Service charges - electricity revenue	4,394	4,394	4,394	4,394	4,394	4,394	4,394	4,394	4,394	4,394	4,394	4,394	52,725	55,836	59,074	
Service charges - water revenue	3,185	3,185	3,185	3,185	3,185	3,185	3,185	3,185	3,185	3,185	3,185	3,185	38,223	40,478	42,825	
Service charges - sanitation revenue	1,442	1,442	1,442	1,442	1,442	1,442	1,442	1,442	1,442	1,442	1,442	1,442	17,309	18,330	19,394	
Service charges - refuse revenue	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	1,688	20,250	21,445	22,689	
Service charges - other	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
Rental of facilities and equipment	56	56	56	56	56	56	56	56	56	56	56	56	674	714	755	
Interest earned - external investments	140	140	140	140	140	140	140	140	140	140	140	140	1,674	1,773	1,876	
Interest earned - outstanding debtors	1,581	1,581	1,581	1,581	1,581	1,581	1,581	1,581	1,581	1,581	1,581	1,581	18,966	20,085	21,250	
Dividends received	3	3	3	3	3	3	3	3	3	3	3	3	40	42	45	
Fines, penalties and forfeits	30	30	30	30	30	30	30	30	30	30	30	30	364	386	408	
Licences and permits	3	3	3	3	3	3	3	3	3	3	3	3	31	33	35	
Agency services	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
Transfer receipts - operational	65,690	2,173			53,401			566	39,415			–	161,245	170,758	180,662	
Other revenue	227	227	227	227	227	227	227	227	227	227	227	227	2,721	3,062	2,985	
Cash Receipts by Source	81,106	17,589	15,416	15,416	68,817	15,416	15,416	15,982	54,831	15,416	15,416	15,416	346,237	366,845	387,868	
Other Cash Flows by Source																
Transfer receipts - capital	34,248		6,000		29,927		4,000		30,822			–	104,997	75,662	69,426	
Borrowing long term/refinancing		31,000										–	31,000			
Increase (decrease) in consumer deposits												5	5	5	6	
Decrease (increase) in non-current investments												(1,265)	(1,265)	(1,328)	(1,395)	
Total Cash Receipts by Source	115,354	48,589	21,416	15,416	98,744	15,416	19,416	15,982	85,653	15,416	15,416	14,156	480,974	441,184	455,905	
Cash Payments by Type																
Employee related costs	15,852	14,650	15,852	15,852	17,500	18,121	15,852	15,852	15,852	15,852	15,852	13,137	190,224	193,699	204,934	
Remuneration of councillors	888	888	888	888	888	977	941	941	941	941	941	941	11,062	11,714	12,394	
Finance charges	709	709	709	709	709	709	709	709	709	709	709	709	8,511	9,014	9,536	
Bulk purchases - Electricity	5,607	5,607	5,607	5,607	5,607	5,607	5,607	5,607	5,607	5,607	5,607	5,607	67,284	71,254	75,386	
Contracted services	1,648	1,648	1,648	1,648	1,648	1,648	1,648	1,648	1,648	1,648	1,648	1,648	19,772	19,477	20,607	
Transfers and grants - other	74	74	74	74	74	74	74	74	74	74	74	74	894	1,000	1,058	
Other expenditure	4,393	4,393	4,393	4,393	4,393	4,393	4,393	4,393	4,393	4,393	4,393	4,393	52,716	55,826	59,064	
Cash Payments by Type	29,172	27,970	29,172	29,172	30,820	31,529	29,224	29,224	29,224	29,224	29,224	26,510	350,462	361,984	382,979	
Other Cash Flows/Payments by Type																
Capital assets	7,275	9,173	9,841	12,633	9,105	9,827	6,529	8,946	8,733	8,059	9,151	5,724	104,997	75,662	69,426	
Repayment of borrowing						225						275	500	530	562	
Other Cash Flows/Payments	1,869						2,863			2,818		–	7,550	5,000	3,000	
Total Cash Payments by Type	38,316	37,143	39,013	41,804	39,924	41,581	38,616	38,170	37,957	40,101	38,375	32,509	463,509	443,176	455,967	
NET INCREASE/(DECREASE) IN CASH HELD	77,038	11,446	(17,597)	(26,388)	58,820	(26,165)	(19,200)	(22,188)	47,696	(24,685)	(22,959)	(18,353)	17,465	(1,992)	(62)	
Cash/cash equivalents at the month/year begin:	(14,510)	62,528	73,975	56,378	29,989	88,809	62,644	43,444	21,256	68,952	44,267	21,308	(14,510)	2,955	963	
Cash/cash equivalents at the month/year end:	62,528	73,975	56,378	29,989	88,809	62,644	43,444	21,256	68,952	44,267	21,308	2,955	2,955	963	901	

1.11 Municipal manager's quality certificate

I, S T R Ramakarane, Municipal Manager of Setsoto Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name S T R RAMAKARANE _____

Municipal manager of Setsoto Municipality (FS191)

Signature _____

Date _____

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget.

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2015) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled the budget key timelines before Council meeting outlining the key activities to be undertaken with strict timeliness. There will however be necessary deviations from the key dates set out in the Budget Time Schedule tabled in Council as a result of guidelines in MFMA circular 78 which requires that the budget should be approved before the end of term of the current Council.

Setsoto Local Municipality – Annual Budget & MTREF 2017/18

FS191 Setsoto - Table A1 Budget Summary					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousands					
<u>Financial Performance</u>					
Property rates	42,250	33,111	43,263	45,815	48,473
Service charges	193,512	160,091	173,658	183,904	194,570
Investment revenue	2,200	1,755	1,860	1,970	2,084
Transfers recognised - operational	162,308	162,308	161,245	170,758	180,662
Other own revenue	35,260	45,624	32,483	34,400	36,395
Total Revenue (excluding capital transfers and contributions)	435,530	402,888	412,509	436,847	462,184
Employee costs	174,767	173,256	182,908	193,699	204,934
Remuneration of councillors	7,927	8,354	11,062	11,714	12,394
Depreciation & asset impairment	33,262	12,288	12,490	13,227	13,994
Finance charges	13,177	11,499	8,511	9,014	9,536
Materials and bulk purchases	74,000	73,179	67,284	71,254	75,386
Transfers and grants	1,064	399	894	1,000	1,058
Other expenditure	131,172	116,288	129,123	136,741	144,672
Total Expenditure	435,369	395,262	412,271	436,649	461,974
Surplus/(Deficit)	161	7,626	238	199	210

Setsoto Local Municipality – Annual Budget & MTREF 2017/18

FS191 Setsoto - Table A2 Budgeted Financial Performance (revenue and expenditure by functional classification)

Functional Classification Description R thousand	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Revenue - Functional					
<i>Governance and administration</i>	122,641	135,574	112,160	118,778	125,667
Executive and council	42,902	58,135	44,548	47,177	49,913
Finance and administration	79,739	77,439	67,612	71,601	75,754
Internal audit	—	—	—	—	—
<i>Community and public safety</i>	1,048	1,179	1,250	1,324	1,401
Community and social services	433	665	705	747	790
Sport and recreation	65	55	58	62	65
Public safety	—	—	—	—	—
Housing	550	460	487	516	546
Health	—	—	—	—	—
<i>Economic and environmental services</i>	29,811	29,981	29,595	31,341	33,159
Planning and development	2,298	2,283	2,445	2,589	2,739
Road transport	27,513	27,698	27,150	28,752	30,419
Environmental protection	—	—	—	—	—
<i>Trading services</i>	287,649	267,573	269,504	285,405	301,958
Energy sources	106,413	86,670	89,072	94,327	99,798
Water management	86,064	75,825	76,504	81,018	85,717
Waste water management	48,211	52,313	49,796	52,734	55,793
Waste management	46,961	52,764	54,131	57,325	60,650
<i>Other</i>	—	—	—	—	—
Total Revenue - Functional	441,149	434,306	412,509	436,847	462,184
Expenditure - Functional					
<i>Governance and administration</i>	151,662	152,181	120,218	127,311	134,695
Executive and council	38,998	41,709	31,031	32,862	34,768
Finance and administration	108,396	106,894	85,334	90,369	95,610
Internal audit	4,268	3,577	3,853	4,080	4,317
<i>Community and public safety</i>	33,437	29,518	36,460	38,611	40,851
Community and social services	7,555	7,555	6,298	6,670	7,057
Sport and recreation	10,827	9,122	10,621	11,247	11,900
Public safety	1,258	861	4,118	4,361	4,614
Housing	13,798	11,458	14,869	15,747	16,660
Health	—	522	553	586	620
<i>Economic and environmental services</i>	34,546	28,539	39,671	42,012	44,448
Planning and development	7,792	6,408	7,720	8,175	8,649
Road transport	26,753	22,131	31,952	33,837	35,799
Environmental protection	—	—	—	—	—
<i>Trading services</i>	221,343	216,443	215,922	228,661	241,923
Energy sources	83,560	87,899	89,936	95,242	100,766
Water management	62,888	55,020	48,231	51,077	54,039
Waste water management	43,265	33,460	39,411	41,736	44,157
Waste management	31,630	40,063	38,344	40,606	42,961
<i>Other</i>	—	—	—	—	—
Total Expenditure - Functional	440,988	426,681	412,271	436,595	461,918
Surplus/(Deficit) for the year	161	7,626	238	252	267

Setsoto Local Municipality – Annual Budget & MTREF 2017/18

FS191 Setsoto - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)			
Vote Description	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<u>Revenue by Vote</u>			
Vote 1 - Executive and council	40,666	43,066	45,563
Vote 2 - Municipal Manager	3,882	4,111	4,350
Vote 3 - Treasury	65,493	69,357	73,380
Vote 4 - Corporate Services	1,474	1,561	1,651
Vote 5 - Development Planning and Social Security	55,570	58,991	62,553
Vote 6 - Engineering Services	245,424	259,761	274,687
Total Revenue by Vote	412,509	436,847	462,185
<u>Expenditure by Vote to be appropriated</u>			
Vote 1 - Executive and council	22,173	23,481	24,843
Vote 2 - Municipal Manager	20,180	21,370	22,610
Vote 3 - Treasury	37,860	40,093	42,419
Vote 4 - Corporate Services	29,392	31,126	32,932
Vote 5 - Development Planning and Social Security	74,318	78,702	83,267
Vote 6 - Engineering Services	228,349	241,822	255,847
Total Expenditure by Vote	412,271	436,595	461,918
Surplus/(Deficit) for the year	238	252	267

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FS191 Setsoto - Table A4 Budgeted Financial Performance (revenue and expenditure)					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand					
<u>Revenue By Source</u>					
Property rates	42,250	33,111	43,263	45,815	48,473
Service charges - electricity revenue	84,736	66,711	71,250	75,454	79,830
Service charges - water revenue	59,654	46,774	51,652	54,700	57,872
Service charges - sanitation revenue	21,214	20,888	23,391	24,771	26,207
Service charges - refuse revenue	27,908	25,717	27,365	28,980	30,660
Rental of facilities and equipment	802	706	749	793	839
Interest earned - external investments	2,200	1,755	1,860	1,970	2,084
Interest earned - outstanding debtors	28,568	24,180	25,630	27,143	28,717
Dividends received	40	40	40	42	45
Fines, penalties and forfeits	114	344	364	386	408
Licences and permits	44	29	31	33	35
Transfers and subsidies	162,308	162,308	161,245	170,758	180,662
Other revenue	5,692	20,325	5,669	6,003	6,351
Gains on disposal of PPE					
Total Revenue (excluding capital transfers and contributions)	435,530	402,888	412,509	436,847	462,184
<u>Expenditure By Type</u>					
Employee related costs	174,767	173,256	182,908	193,699	204,934
Remuneration of councillors	7,927	8,354	11,062	11,714	12,394
Debt impairment	26,000	57,089	58,014	61,437	65,001
Depreciation & asset impairment	33,262	12,288	12,490	13,227	13,994
Finance charges	13,177	11,499	8,511	9,014	9,536
Bulk purchases	74,000	73,179	67,284	71,254	75,386
Contracted services	31,114	15,895	18,392	19,477	20,607
Transfers and subsidies	1,064	399	894	1,000	1,058
Other expenditure	74,059	43,304	52,716	55,826	59,064
Loss on disposal of PPE					
Total Expenditure	435,369	395,262	412,271	436,649	461,974
Surplus/(Deficit)	161	7,626	238	199	210
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)			104,997	75,662	69,426
Surplus/(Deficit) for the year	161	7,626	105,235	75,861	69,636

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FS 191 Setsoto - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding			
Vote Description	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<u>Capital expenditure - Vote</u>			
<u>Single-year expenditure to be appropriated</u>			
Vote 5 - Development Planning and Social Security	1,700	37,407	—
Vote 6 - Engineering Services	103,297	—	—
Capital single-year expenditure sub-total	104,997	37,407	—
Total Capital Expenditure - Vote	104,997	37,407	—
<u>Capital Expenditure - Functional</u>			
<i>Community and public safety</i>	1,700	10,912	—
Community and social services		6,000	—
Sport and recreation	1,700	4,912	—
<i>Economic and environmental services</i>	31,581	—	—
Road transport	31,581		
<i>Trading services</i>	71,716	36,026	—
Energy sources	6,000		
Water management	42,716		
Waste water management	23,000	3,531	—
Waste management		32,496	
<i>Other</i>		1,490	
Total Capital Expenditure - Functional	104,997	48,428	—
<u>Funded by:</u>			
National Government	104,997	48,428	
Transfers recognised - capital	104,997	48,428	—
Public contributions & donations			
Borrowing			
Internally generated funds			
Total Capital Funding	104,997	48,428	—

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FS191 Setsoto - Table A6 Budgeted Financial Position			
Description	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand			
ASSETS			
Current assets			
Cash		—	4,356
Call investment deposits	—	—	1,891
Consumer debtors	(58,014)	(61,437)	311,905
Other debtors	62,359	70,973	70,393
Inventory	5,123	5,425	5,740
Total current assets	9,468	14,961	394,285
Non current assets			
Investments	2,870	3,039	3,216
Investment property	87,445	92,604	97,975
Property, plant and equipment	3,426,554	3,628,720	3,839,186
Intangible	—	—	3,615
Other non-current assets	—	—	17,067
Total non current assets	3,516,869	3,724,364	3,961,059
TOTAL ASSETS	3,526,337	3,739,324	4,355,344
LIABILITIES			
Current liabilities			
Bank overdraft	(8,524)	(1,279)	—
Borrowing	3,015	3,193	3,378
Consumer deposits	3,250	3,442	3,642
Trade and other payables	1,200	1,271	54,713
Provisions	4,000	4,236	4,482
Total current liabilities	2,941	10,863	66,214
Non current liabilities			
Borrowing	6,000	3,540	2,053
Provisions	—	—	83,473
Total non current liabilities	6,000	3,540	85,526
TOTAL LIABILITIES	8,941	14,403	151,741
NET ASSETS	3,517,395	3,724,922	4,203,603
COMMUNITY WEALTH/EQUITY			
Accumulated Surplus/(Deficit)	3,517,395	3,724,922	4,203,603
TOTAL COMMUNITY WEALTH/EQUITY	3,517,395	3,724,922	4,203,603

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FS191 Setsoto - Table A7 Budgeted Cash Flows					
Description	Current Year 2016/17		2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Original Budget	Adjusted Budget	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts					
Property rates	33,188	17,798	32,014	33,903	35,870
Service charges	147,733	132,157	128,507	136,089	143,982
Other revenue	4,551	4,405	3,790	4,194	4,183
Government - operating	164,563	179,563	161,245	170,758	180,662
Government - capital	79,552	81,807	104,997	75,662	69,426
Interest	15,341	3,613	20,641	21,859	23,126
Dividends	40	40	40	42	45
Payments					
Suppliers and employees	(353,175)	(336,238)	(348,607)	(356,971)	(375,385)
Finance charges	(1,745)	(2,057)	(8,511)	(9,014)	(9,536)
Transfers and Grants	(2,763)	(7,446)	(894)	(1,000)	(1,058)
NET CASH FROM/(USED) OPERATING ACTIVITIES	87,286	73,642	93,222	75,523	71,315
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts					
Decrease (increase) in non-current investments			(1,265)	(1,328)	(1,395)
Payments					
Capital assets	(89,052)	(88,982)	(104,997)	(75,662)	(69,426)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(89,052)	(88,982)	(106,262)	(76,990)	(70,821)
CASH FLOWS FROM FINANCING ACTIVITIES					
Receipts					
Borrowing long term/refinancing			31,000	–	–
Increase (decrease) in consumer deposits			5	5	6
Payments					
Repayment of borrowing	(2,871)	(2,871)	(500)	(530)	(562)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(2,871)	(2,871)	30,505	(525)	(556)
NET INCREASE/ (DECREASE) IN CASH HELD	(4,638)	(18,212)	17,465	(1,992)	(62)
Cash/cash equivalents at the year begin:	3,702	3,702	(14,510)	2,955	963
Cash/cash equivalents at the year end:	(936)	(14,510)	2,955	963	901

FS191 Setsoto - Table A8 Cash backed reserves/accumulated surplus reconciliation

Description	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand			
<u>Cash and investments available</u>			
Cash/cash equivalents at the year end	2,955	963	901
Other current investments > 90 days	5,568	315	5,345
Non current assets - Investments	2,870	3,039	3,216
Cash and investments available:	11,394	4,318	9,462
<u>Application of cash and investments</u>			
Other working capital requirements	(2,863)	(6,290)	(198,449)
Total Application of cash and investments:	(2,863)	(6,290)	(198,449)
Surplus(shortfall)	14,257	10,608	207,912

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FS191 Setsoto - Table A9 Asset Management			
Description	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand			
CAPITAL EXPENDITURE			
<u>Total New Assets</u>	104,997	19,894	—
<i>Roads Infrastructure</i>	31,581	19,894	—
<i>Storm water Infrastructure</i>	—	—	—
<i>Electrical Infrastructure</i>	6,000	—	—
<i>Water Supply Infrastructure</i>	42,716	—	—
<i>Sanitation Infrastructure</i>	23,000	—	—
Infrastructure	103,297	19,894	—
Sport and Recreation Facilities	1,700	—	—
Community Assets	1,700	—	—
<u>Total Capital Expenditure</u>			
<i>Roads Infrastructure</i>	31,581	19,894	—
<i>Storm water Infrastructure</i>	—	—	—
<i>Electrical Infrastructure</i>	6,000	—	—
<i>Water Supply Infrastructure</i>	42,716	—	—
<i>Sanitation Infrastructure</i>	23,000	—	—
Infrastructure	103,297	19,894	—
Sport and Recreation Facilities	1,700	—	—
Community Assets	1,700	—	—
TOTAL CAPITAL EXPENDITURE - Asset class	104,997	19,894	—
EXPENDITURE OTHER ITEMS			
<u>Depreciation</u>	12,490	12,490	13,227
TOTAL EXPENDITURE OTHER ITEMS	12,490	12,490	13,227
<i>Renewal and upgrading of Existing Assets as % of total capex</i>	0.0%	0.0%	0.0%
<i>Renewal and upgrading of Existing Assets as % of deprecn</i>	0.0%	0.0%	0.0%
<i>R&M as a % of PPE</i>	0.0%	0.0%	0.0%
<i>Renewal and upgrading and R&M as a % of PPE</i>	0.0%	0.0%	0.0%

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FS191 Setsoto - Table A10 Basic service delivery measurement			
Description	2017/18 Medium Term Revenue & Expenditure Framework		
	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<u>Household service targets</u>			
<u>Water:</u>			
Piped water inside dwelling	3,655	3,871	4,095
Piped water inside yard (but not in dwelling)	9,138	9,677	10,238
Using public tap (at least min.service level)	8,224	8,709	9,214
Other water supply (at least min.service level)	—	—	—
<i>Minimum Service Level and Above sub-total</i>	21,017	22,257	23,548
Using public tap (< min.service level)	4,567	4,836	5,117
Other water supply (< min.service level)	—	—	—
No water supply	916	970	1,026
<i>Below Minimum Service Level sub-total</i>	5,483	5,806	6,143
Total number of households	26,500	28,064	29,691
<u>Sanitation/sewerage:</u>			
Flush toilet (connected to sewerage)	9,710	10,283	10,879
Other toilet provisions (> min.service level)	1,316	1,394	1,474
<i>Minimum Service Level and Above sub-total</i>	11,026	11,677	12,354
Bucket toilet	10,526	11,147	11,794
No toilet provisions	3,948	4,181	4,423
<i>Below Minimum Service Level sub-total</i>	14,474	15,328	16,217
Total number of households	25,500	27,005	28,571
<u>Energy:</u>			
Electricity (at least min.service level)	4,300	4,554	4,818
Electricity - prepaid (min.service level)	20,000	21,180	22,408
<i>Minimum Service Level and Above sub-total</i>	24,300	25,734	27,226
Total number of households	24,300	25,734	27,226
<u>Refuse:</u>			
Removed at least once a week	27,000	28,593	30,251
<i>Minimum Service Level and Above sub-total</i>	27,000	28,593	30,251
Total number of households	27,000	28,593	30,251
<u>Revenue cost of subsidised services provided (R'000)</u>			
Property rates (tariff adjustment) (impermissible values per section 17 of MPRA)			
Property rates exemptions, reductions and rebates and impermissible values in excess of section 17 of MPRA)	14,449	15,301	16,189
Water (in excess of 6 kilolitres per indigent household per month)	4,709	4,987	5,276
Sanitation (in excess of free sanitation service to indigent households)	3,450	3,654	3,865
Electricity /other energy (in excess of 50 kw h per indigent household per month)	4,370	4,628	4,896
Refuse (in excess of one removal a week for indigent households)	7,550	7,996	8,460
Total revenue cost of subsidised services provided	34,528	36,565	38,686

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FS191 Setsoto - Supporting Table SA2 Matrix Financial Performance Budget (revenue source/expenditure type and dept.)							
Description	Vote 1 - Executive and council	Vote 2 - Municipal Manager	Vote 3 - Treasury	Vote 4 - Corporate Services	Vote 5 - Development Planning and Social Security	Vote 6 - Engineering Services	Total
R thousand							
Revenue By Source							
Property rates			43,263				43,263
Service charges - electricity revenue						71,250	71,250
Service charges - water revenue						51,652	51,652
Service charges - sanitation revenue						23,391	23,391
Service charges - refuse revenue					27,365		27,365
Service charges - other							–
Rental of facilities and equipment					262	487	749
Interest earned - external investments			1,860				1,860
Interest earned - outstanding debtors			25,630				25,630
Dividends received			40				40
Fines, penalties and forfeits					364		364
Licences and permits					31		31
Other revenue	1,417	–	178	26	2,401	1,647	5,669
Transfers and subsidies	24,852	3,882	1,700		18,639	112,171	161,245
Gains on disposal of PPE							–
Total Revenue (excluding capital transfers and	26,270	3,882	72,671	26	49,063	260,598	412,509
Expenditure By Type							
Employee related costs	3,534	11,064	21,863	18,989	53,036	74,422	182,908
Remuneration of councillors	11,062						11,062
Debt impairment			2,120		16,197	39,697	58,014
Depreciation & asset impairment	37	37	782	42	6,464	5,127	12,490
Finance charges	1,104	320	365	2,646	500	3,577	8,511
Bulk purchases						67,284	67,284
Contracted services	–	320	342	478	3,871	13,382	18,392
Transfers and subsidies				94	800		894
Other expenditure	15,924	4,669	13,950	7,144	5,438	5,591	52,715
Loss on disposal of PPE							–
Total Expenditure	31,661	16,410	39,421	29,392	86,307	209,080	412,271
Surplus/(Deficit)	(5,391)	(12,528)	33,250	(29,366)	(37,244)	51,518	238
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)						104,997	104,997
Surplus/(Deficit) after capital transfers & contributions	(5,391)	(12,528)	33,250	(29,366)	(37,244)	156,515	105,235

2.3 Overview of budget related-policies

The municipal budget related policies was reviewed as part of community inputs and the final reviewed policies are attached

2.4 List of Tariffs

The municipal budget was compiled using the attached Tariff list.